

Tax Increment Finance Policy City of Madison

Approved by the City of Madison
Economic Development Committee
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INTRODUCTION AND TIF GOALS

Tax Increment Financing (TIF) is a governmental finance tool that the City of Madison uses to provide funds to construct public infrastructure, promote development opportunities and expand the future tax base. The City of Madison seeks to use TIF to enhance the built environment in concert with adopted plans and to strengthen the City's economic foundation in an inclusive manner. The City seeks a policy that is both competitive and flexible.

The September 19, 2012 Department of Planning & Community & Economic Development (DPCED) PowerPoint report highlights the impact of the City of Madison's past TIF policies. See Exhibit A.

Madison's goals for the use of TIF include:

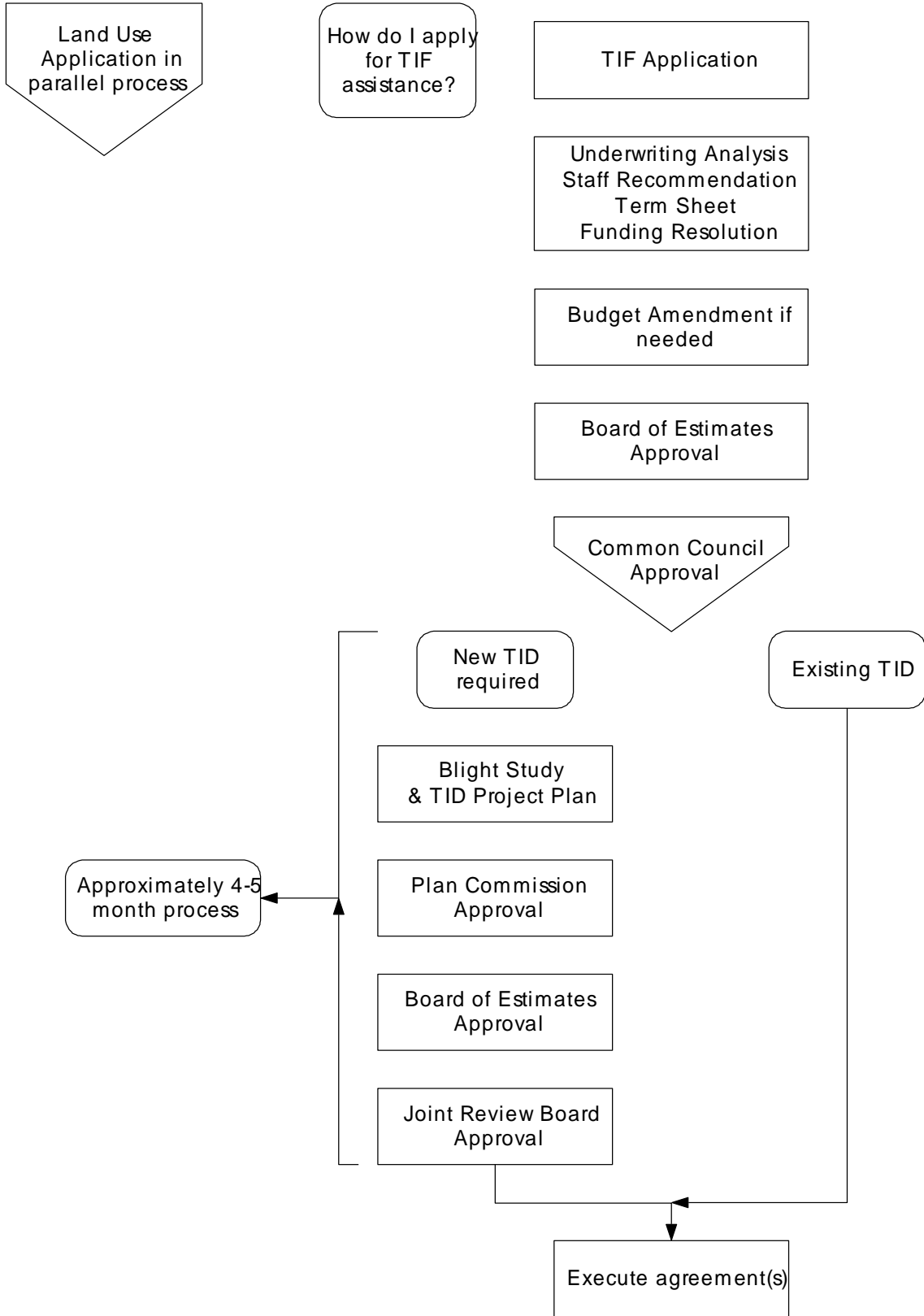
1. Growing the property tax base
2. Fostering the creation and retention of family-supporting jobs and jobs that offer career ladders toward family-supporting jobs
3. Encouraging adaptive re-use of obsolete or deteriorating property
4. Encouraging urban in-fill projects that increase (or decrease where appropriate) density consistent with the City comprehensive plan
5. Assisting in the revitalization of historic or architecturally significant or deteriorated buildings
6. Creating a range of housing options and specifically encouraging the development of workforce and affordable housing
7. Enhancing transportation options by making it easier to walk, bike, use mass-transit, or employ other shared transit options
8. Promoting superior design, building materials, and sustainability features in the built environment

TIF PROCESS

The City recognizes that some high-quality, desirable development projects cannot proceed without a public-private partnership that may involve TIF. The City actively invites developers to approach the City with these projects.

The following chart depicts the general process for applying for TIF assistance:

Figure 1: TIF Process



TIF Team

The Director of the Department of Planning and Community and Economic Development (or the Director of Economic Development as the Department Director's designee) shall convene a staff TIF Team as necessary. The staff TIF Team shall be comprised of representatives from the Department of Planning and Community and Economic Development (including the TIF Coordinator), the Finance Department, the City Attorney's Office, and other staff as appropriate. For each project, the team shall collaborate to develop a TIF recommendation to the Mayor and the Common Council.

TIF Application Within an Existing TID

As noted in Figure 1, application for TIF for a project within an existing TID only requires approval by the City's Common Council, with referral through the Board of Estimates. Recognizing the need for a potential Capital Budget amendment as noted below, an application for TIF within an existing TID may be accepted and processed at any time. An application timeline for TIF within an existing TID varies on the complexity of the project. From the time of application, through staff underwriting, approval by the Common Council, and negotiation/execution of a TIF agreement, an applicant could expect a two (2) to three (3) month process. In certain situations, a project located within an existing TID may require an amendment to the TID project plan. In these cases, additional time may be required to secure necessary approvals from the Joint Review Board.

TIF Application Without an Existing TID

Projects located outside of an existing TID could receive TIF support through the creation of a new TID, or by amending the boundary of a nearby TID to bring the project into that TID. The City of Madison requires approximately five (5) months to create or amend a TID. TIF law requires that all districts be either created or amended by September 30 of each year in order to be certified for that year. Developers seeking TIF assistance for development on a parcel or parcels that is not located in a TID boundary, and requires either amendment or creation of a TID as part of their request for TIF assistance should ideally apply for TIF and land use approvals by April 15. Applications for TIF after April 15 will be considered, but may bear additional risk for the developer.

TID Creation

The City will generally consider creating or amending a TID when:

- a. The proposed TID has economic "generators," i.e., at least one private development project that generates increment to finance TID costs. Economic generators typically should have an incremental value at completion of at least \$3 million to cover the typical costs of establishing a TID, or –
- b. The proposed TID is in a TDA and the Department of Planning and Community and Economic Development finds that near term development is likely, or –
- c. The City owns land in the proposed TID and is actively attempting to sell or develop the land

Note: The previous language is not intended to prevent the City from creating small TIDs that may be less costly to establish nor TIDs that may be strategically important to create in advance of an expected generator(s).

TIF and the Capital Budget

To the extent that Economic Development Division staff is able to anticipate projects expected in the upcoming calendar year that require city funds, staff will request Capital Budget allocations for pipeline projects. Developers are encouraged to make staff aware of upcoming projects prior to key Capital Budget deadlines. Typically these deadlines are:

| | |
|------------------|-----------------|
| Agency Requests | mid-June |
| Executive Budget | early September |

The Mayor and Common Council may include an additional pool of TIF funding unallocated to specific Tax Increment Districts (TIDs). This pool may be allocated to specific TIDs on a majority vote based on a first-come, first-served basis.

Developers should be aware that other City TIF funding not included in the Capital Budget will require an extra-majority vote to adopt a budget amendment.

Targeted Development Areas

The City recognizes the need to be proactive about strategically encouraging development in some areas. In particular, competing for desirable employers that are seeking new space requires nimbleness and responsiveness. To make Madison competitive, the Department of Planning and Community and Economic Development shall propose a map, for adoption by the Common Council, of these Targeted Development Areas (TDAs) appropriate for commercial or industrial development. The Common Council and Joint Review Board can create a new TID regardless of whether or not the geographic area is covered by a TDA: however, projects located within an adopted TDA shall receive additional consideration for TID creation. The purpose of these TDAs is not to choose winners and losers, but help Madison projects be competitive with surrounding communities. The Department shall propose updates to the map as necessary.

TIF Origination Fee

Developers shall pay a TIF origination fee in the amount of one half of one percent of the amount of Tax Incremental Financing approved by the Common Council. Fee shall be paid in full prior to fund disbursement.

Annual TIF Policy Review

The Department of Planning & Economic & Community Development shall update the data of the September 19, 2012 PowerPoint presentation on an annual basis to facilitate a

policy evaluation. The Economic Development Committee shall hold a public hearing every February to solicit feedback on the City’s TIF Policy. Among the criteria for this review shall be relative use of TIF, comparison to regional communities, and developer feedback. In addition, the TIF Team shall annually review the adopted TIF Policy and propose modifications to reflect changes in market conditions, new experience, and new development trends. Based on the annual hearing and team review, the TIF Team in conjunction with the Economic Development Committee shall prepare a resolution for Common Council consideration that incorporates suggested changes.

Underwriting Review

In addition, the TIF Team shall periodically review the assumptions and methodology used in its analysis and make updates as needed. This review will assess the use of cash flow versus static modeling, the discount rate assumption relative to historic City borrowing costs, property value appreciation, rates of levy growth, and other variables.

TIF LOAN UNDERWRITING

It is the policy of the City to support high quality development consistent with adopted plans while acting as a careful steward of public resources. While providing prudent TIF awards, the City will partner with TIF applicants where appropriate to promote the eight goals outlined earlier in this document.

Definitions

The follow definitions are used in this section:

- Real Estate Project: The construction, rehabilitation, or expansion of a structure that creates property tax increment or Payments in Lieu of Taxes- (“PILOT”)
- Affordable Housing Project: A residential real estate project offering below market rents based on income for an extended period of time
- Employment-Oriented Project: A commercial or mixed-use Real Estate Project led by or anchored by a non-retail employer that meets the Workforce Development Standards described below

Workforce Development Standards

The City of Madison is focused on fostering the creation and retention of family supporting jobs and/or jobs that offer career ladders toward family supporting jobs within the following primary industry sectors:

- Manufacturing
- Medical/Biotechnology
- Agriculture/Biotechnology
- Digital Technology
- Finance and Insurance
- Alternative Energy, Water, and Sustainability
- Other sectors consistent with the Economic Development Plan

“But For” Standard

Each project must demonstrate sufficient need for the City’s financial assistance, such that without that assistance, the proposed project would not be expected to occur in the City of Madison. The economics of the project itself will be evaluated and the balance sheet or wealth of an applicant shall not be grounds for rejecting an application. Each project must demonstrate probability of economic success. The following guidelines will be used for evaluating the “but for” standard:

- For Real Estate Projects: Projects will be deemed to meet the “but for” standard when a gap between sources and uses of capital exists.
 - For Affordable Housing Projects: Projects will be deemed to meet the “but for” standard when a gap between sources and uses of capital exists or when TIF assistance is likely to affect a project’s ability to attract capital to Madison from another public or nonprofit source.
 - For Employment-Oriented Projects: Projects will be deemed to meet the “but for” standard when a gap between sources and uses of capital exists or when “competitive factors” exist that reasonably lead to the conclusion that but for the provision of TIF assistance, a project is not likely to occur within the City of Madison. Competitive factors include situations where one or more of the following occur:
 - The employer is conducting a site search for a new facility or expansion that includes sites outside of the City of Madison
 - The employer has received or is soliciting an incentive offer(s) from other governments or economic development entities
 - A Madison-based employer is competing for capital investment within their parent organization or investor group
 - The employer is evaluating a capital investment (sunk capital) that is likely to assure the retention of that employer for many years

Amount of TIF Assistance

After underwriting each project, staff will make a recommendation on the amount of TIF assistance to be provided based on the following factors (see Appendix A for additional detail):

- The type of the project
- The financial gap exhibited in the TIF application
- The projected increment created by the project
- The financial health and the age of the TID
- An evaluation of relevant competitive factors
- Location with a Targeted Development Area
- Other increment demands for public infrastructure and other projected project plan costs
- Likelihood of catalyzing additional development within the TID
- Extraordinary strategic or civic purposes met through the project
- The current condition of the economy and local real estate market

For Affordable Housing Projects: TIF assistance may be based on matching requirements of other affordable housing programs provided the TID's health or project's value can support such an award.

For Employment-Oriented Projects: TIF assistance may be based on the value created by the project, the age and financial health of the TID, and the best available information about the project's economics and competitive factors.

Note: While the City anticipates generally making TIF awards which reserve sufficient increment for public purposes such as infrastructure, higher amounts may be considered on a case-by-case basis.

Equity Participation

TIF assistance shall not exceed the amount of equity provided by the Developer. Equity is defined as cash or un-leveraged value in land or prepaid costs attributable to the project. Donated Developer or Construction Management fees shall not be constituted as equity investment.

No Mortgage Guarantees

The City will not provide mortgage guarantees.

Guaranty

The City will require a guaranty of increment, which may be a personal guaranty, sufficient to recover the City's debt service on City-financed TIF loans.

Real Estate Taxes

All projects assisted with TIF shall pay real estate taxes or negotiate a PILOT acceptable to the City.

Land Use or Contract Violations

Agreements for TIF assistance shall provide for remedies in the event the applicant violates the land use approvals or other contractual arrangements.

Cost Considerations

TIF assistance can generally support capital costs, financing costs, real property assembly costs, and professional service costs as outlined in Wis. Stats 66.1105 (2) (f) subject to the following qualifications:

Land Cost Due Diligence, Excessive Land Costs—The City may consider write-downs from the value of the current land use to the market value of the proposed use provided that Developers shall demonstrate proper due diligence in the purchase of land, including but not limited to studies of soil conditions,

comparable land prices, environmental issues. Prior to purchase, developers seeking TIF shall provide the City with documented market evidence that the purchase price negotiated is within an acceptable range of values for the property's current land use and condition. Developers shall conduct initial meetings with the district alder and planning staff concerning zoning, land use and other regulatory issues and shall provide such findings to the City. The City shall not assist write-downs for land purchases that greatly exceed the assessed value of the current land use(s), as determined by the City. The City of Madison is not obligated to provide TIF assistance for land costs, whether purchased or optioned. Developer shall provide all such studies or reports to the City at the time of application.

Environmental Remediation

The City may consider the cost to remediate environmentally contaminated property when it exceeds the reasonable cost experienced on typical redevelopment projects. However, the City shall not provide TIF write-downs that eliminate a responsible party's obligation to remediate contaminated property.

Assessable Infrastructure Costs

Currently in the City of Madison, TIF may not be used to pay for public infrastructure expenditures that are paid for by special assessments or other City charges. Non-assessable public infrastructure expenditures may be funded with TIF.

Operating Costs

Operating costs including, but not limited to, lease-up reserves, working capital are not eligible TIF expenses.

City Fees

Parks dedication, sewer, water assessments, etc. are not TIF-eligible.

Method of TIF Funding

The City reserves the right to determine the method of financing TIF loans that is in the best interests of the taxpayer. The City will consider using accrued tax increment, general obligation borrowing, internal borrowing, and developer-financed or pay-as-you-go financing. When utilizing pay-as-you-go financing, the City reserves the right to negotiate terms such as interest costs, time frames, maximum award amounts, disbursement schedules, and the percentage of increment available to developers. For projects using a substantial portion of increment or projects with multiple components or phases, the City may require pay-as-you-go financing at its discretion.

Regardless of the financing method, all TIF expenditures will require Common Council approval.

INELIGIBLE DEVELOPMENT

Luxury Housing Luxury housing is ineligible for TIF assistance. Market rate housing projects will be evaluated on a case-by-case basis and may be considered for assistance to the degree they demonstrate a financial gap and promote the City's TIF goals articulated above.

Student Housing

Student housing, defined as multi-unit residential structures, whether publicly or privately owned, that are leased whole or in part to students attending post-secondary educational institutions, shall not be funded with TIF except if it has a significant affordable component.

Speculative Office Development

Commercial projects will be expected to secure one or more anchor tenants consistent with commercial lending standards.

Tenant-Shifting Office Development

The City may consider providing TIF to retain an employer within the City or to accommodate an employer's expansion. The City will seek to avoid providing TIF to relocate an employer within the City.

APPENDIX A – TIF UNDERWRITING

This appendix contains additional detail on how these TIF underwriting factors are intended to be interpreted:

- The **type** of the project
- The **financial gap** exhibited in the TIF application
- The **projected increment** created by the project
- The **financial health** and the **age** of the TID
- An evaluation of relevant **competitive factors**
- Location within a **Targeted Development Area**
- **Other increment demands** for public infrastructure and other projected project plan costs
- Likelihood of **catalyzing additional development** within the TID
- Extraordinary **strategic** or **civic purposes** met through the project
- The **current economic conditions** of the job and local real estate market

Type of Project

TIF loans to affordable housing projects will tend to be calibrated to attract affordable housing resources and reflect the financial health of the TID. TIF loans to employment-oriented projects will tend to be based on the assessment of competitive factors, the projected increment the project generates, and the financial health of the TID.

Financial Gap

In general, TIF assistance should be provided as gap financing to make projects feasible. In the case of affordable housing projects, employment-oriented projects, and extraordinary circumstances, other standards may be utilized.

Projected Increment

In general, projects should generate enough projected increment to support their own TIF loan and contribute to infrastructure and other public project plan costs. Projects using 100% or more of their projected increment will only be approved in extraordinary cases.

Financial Health and Age

Staff will employ additional caution in making recommendations in TIDs that are distressed or at risk for becoming distressed. At the same time, TIF loans in older TIDs may use a higher share of increment than a comparable project in new or younger TIDs.

Competitive Factors

Madison will use TIF prudently to promote workforce development and to attract, and retain employers. In addition to evaluating the competitive factors present, staff will pay careful attention to the projected increment, financial health, and age of the TID.

Targeted Development Areas

Staff will be proactive about creating TIDs in TDAs when project pipelines, business intelligence, and economic conditions warrant this step.

Other Increment Demands

The City recognizes that some TIDs will focus on infrastructure, some on development, and some on a combination of the two. TIF recommendations for development projects should reflect the project plan, reserving increment according to need rather than an arbitrary standard.

Catalyzing Additional Development

The City recognizes that pioneering projects in blighted areas and areas surrounded by infill redevelopment candidate sites are riskier than other projects and may warrant more aggressive TIF assistance.

Strategic or Civic Purpose

Projects that serve a strategic need or an important civic purpose may warrant more aggressive TIF assistance. Examples of important strategic or civic purposes might include:

- Capturing or retaining a critical major employer
- Creating a highly visible project conveying a distinct brand advantage to Madison
- Public-private partnership incorporating or complementing a significant public facility

Current Economic Conditions

The City's TIF Team recommendations should be somewhat counter-cyclical, competing more aggressively for projects when the job market or the corresponding segment of the real estate market is depressed.

APPENDIX B-ACRONYMS

DPCED – Department of Planning and Community and Economic Development

PILOT – Payment in Lieu of Taxes

TDA-Targeted Development Area

TID-Tax Increment District

TIF- Tax Increment Finance